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SUBJECT: Mexico Economic Weekly - February 27

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE:

¶3. (U) BAJA CALIFORNIA ELECTRONIC INDUSTRY DECREASES PRODUCTIVITY: Production in the electronics industry in Baja California has fallen 20%, forcing the industry to cut staff according to the President of the National Chamber of Industry (CANIETI), Jose Antonio Arroyo. According to Arroyo, the situation is so serious that one company had to lay off two thousand workers. Unemployment in the city has reached over four percent from under two percent just a year ago. (Tijuana)

¶4. (U) GASOLINE PRICES INCREASE IN TIJUANA: The price of Premium gasoline went up from 9.39 pesos per liter to 9.46 pesos per liter confirmed the president of the Association of Petrol Station Owners of Tijuana (APEGT) February 24. Magna and Diesel remained at the same price. Gas price increases in the border region have angered locals. (Tijuana)

¶5. (U) TRUCKING COMPANIES PROTEST HIGH FUEL PRICES, TAXES: On February 24, 600 cargo truck drivers with the support of CANACAR took part in a protest primarily against the high cost of diesel and the flat tax (IETU) on trucking companies. Similar to other trucking protest that have taken place around the country, the protesting truckers drove around the city in long caravans slowing down traffic. The protest was peaceful and the protest route was announced ahead of time so commuters could make other plans. In late January, President Calderon announced that the government would reduce the monthly increase of diesel prices by 75%, from 20 cents every month to 5 cents every month but CANACAR points out that diesel prices continue to be higher in Mexico than the U.S. In addition to lower fuel costs and the elimination of the flat tax, CANACAR is also demanding a 50% reduction in highway tolls, more security for trucks on national highways and a ban on the import of used cars. (Monterrey)

TRADE AND INVESTMENT:

¶6. (U) FOREIGN DIRECT INVESTMENT (FDI) DROPPED 31.6% IN 2008: Foreign direct investment flows to Mexico reached USD\$ 18.6 billion in 2008, dropping 31.6% from 2007, the most significant decline since 1982. The Secretariat of the Economy explains that the decline was more significant because FDI bounced back in 2007 when several companies began to invest again after the uncertainty that the 2006 presidential elections generated. The global financial crisis hurt investors' expectations mirroring their pessimism on the economic outlook. Of the total FDI received 33.1% was channeled to the manufacturing sector; 22.9% to mining; 21.4% to the financial sector; 9.3% to retail sales; 4.3% to services; 4.2% to transportation and communications; and 4.8% to others. Most FDI in manufacturer has gone into the aeronautic and medical device sectors. The majority of the investment came from the U.S. (45.7%); Canada followed with 11.8%, and Spain with 11.1% of the total. The government expects FDI to decline even further in 2009 to total USD 15 billion. Analysts noted that in order for Mexico to attract more investment, the government would have to open the following sectors: telephony, infrastructure and energy. (Mexico City)

¶7. (U) CHINESE FIRMS/NISSAN TO BUILD MORE CARS IN MEXICO: Changan Auto plans to set up a factory in Mexico to produce 50,000 automobiles per year in partnership with Mexican firm Autopark, the Chinese firm announced on February 24. A framework agreement between the two companies has been signed and the firms are now negotiating the details of a joint venture. Changan joins two other Chinese manufacturers who recently announced investments in Mexico - Geely and First Auto Works. The First Autoworks joint venture involves an investment of \$150 million and will produce up to 100,000 vehicles when it reaches full capacity. The plant will begin operations in 2010. The Japanese carmaker Nissan said that with the yen revaluation it will transfer part of its production to Mexico, either to the plants in Cuernavaca or Aguascalientes. Nissan's plan is to export the vehicles from Mexico to Asia. Meanwhile, Honda said that it would continue to produce its CR-V in El Salto, Jalisco and Mazda announced price increases for all of its models. Companies such as Toyota have stopped importing units because the peso's depreciation has increased prices almost 30%. (Mexico City)

¶8. (U) NEW COMPANY OPENINGS: Despite lowered economic forecasts for Mexico, foreign direct investment has not completely dried up in Nuevo Leon and neighboring Coahuila. In the first two months of the year several large manufacturing/production facilities have opened including plants for companies such as Lenovo, Hershey's, Schlumberger and Lenox. Coahuila has been hit hard by declines in auto-parts exports and welcomed the opening of the non-auto related plants. Lazy Boy and Daimler Trucks factories are expected to open soon in Coahuila as well. In the Monterrey area, Lowe's Companies is still on track to open five stores in 2009. Each store

represents an investment of US\$18 to \$20 million. (Monterrey)

¶9. (U) AIRLINES: UP FROM THE ASHES?: Less than four months after the demise of Guadalajara-based ALMA airlines with the loss of more than 600 jobs, Mexicana Airlines announced it will create a new subsidiary, Mexicana-Inter, to fill the resulting gap in regional air travel. The new airline is scheduled to launch operations on March 14, using former ALMA aircraft and gates in Guadalajara, and could possibly employ up to 400 ex-ALMA employees. If it succeeds, the new carrier will provide a much needed boost to the aviation sector in western Mexico. (Guadalajara)

LABOR:

¶10. (U) JOBLESS RATE HIT RECORD HIGH: The official unemployment rate reached 5% in January, the highest since INEGI updated the figures in 2000. The number of unemployed reached 2.2 million, 416,000 more than in January of 2008. Although President Calderon's employment programs will help to marginally mitigate the impact, the situation is expected to get worse in the coming months because of the economic situation and stricter migration controls in the U.S. Migration to the U.S. has traditionally provided an escape valve which kept the jobless rate under a certain control. Official unemployment statistics can be misleading since the figures do not distinguish between fully employed persons, underemployed persons or persons actively seeking work. Moreover, the OECD estimates that up to 45 percent of all Mexicans who are currently "employed" work on the informal economy. (Mexico City)

¶11. (U) TIJUANA MUNICIPALITY SUPPORTING UNEMPLOYED: At a February 24 Employment Fair sponsored by the municipality, 7,573 job-seekers showed up for only 2,700 openings on offer. The municipal government announced it will give one thousand pesos (\$USD 70) to up to five thousand job-seekers who did not find work (the fact that the city announced this prior to the job fair may have increased attendance). The municipal government has been working hard to publicize its efforts to ameliorate the economic pain brought on by the slowdown of the U.S. economy. (Tijuana)

¶12. (U) MEXICAN LABOR CONGRESS REELECTS LEADERSHIP: On February 23-24 the Confederation of Mexican Workers (CTM), the country's largest association of labor unions held its 130 Ordinary General Assembly. The event was one of the CTM's regularly scheduled gathering of the organization's state and national leadership. As is customary at such events the CTM's National Executive Committee, it board of directors if you will, presented a number of reports on the state of the organization, its most pressing priorities for the coming year and a summary of the CTM's recent accomplishments. One of the most significant occurrences at this year's gathering was the nomination (as the sole candidate) and approbation (by a show of hands) of the CTM's next Secretary General for the period 2010-2016. To no one's surprise the current national leader of the CTM, Joaquin Gamboa Pascoe, was reelected. Gamboa Pascoe has a close "go along to get along" relationship with President Calderon and, barring the unforeseen, his reelection means that the GOM will most likely have few real problems with the CTM for the remainder of the Calderon administration. (Mexico City)

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